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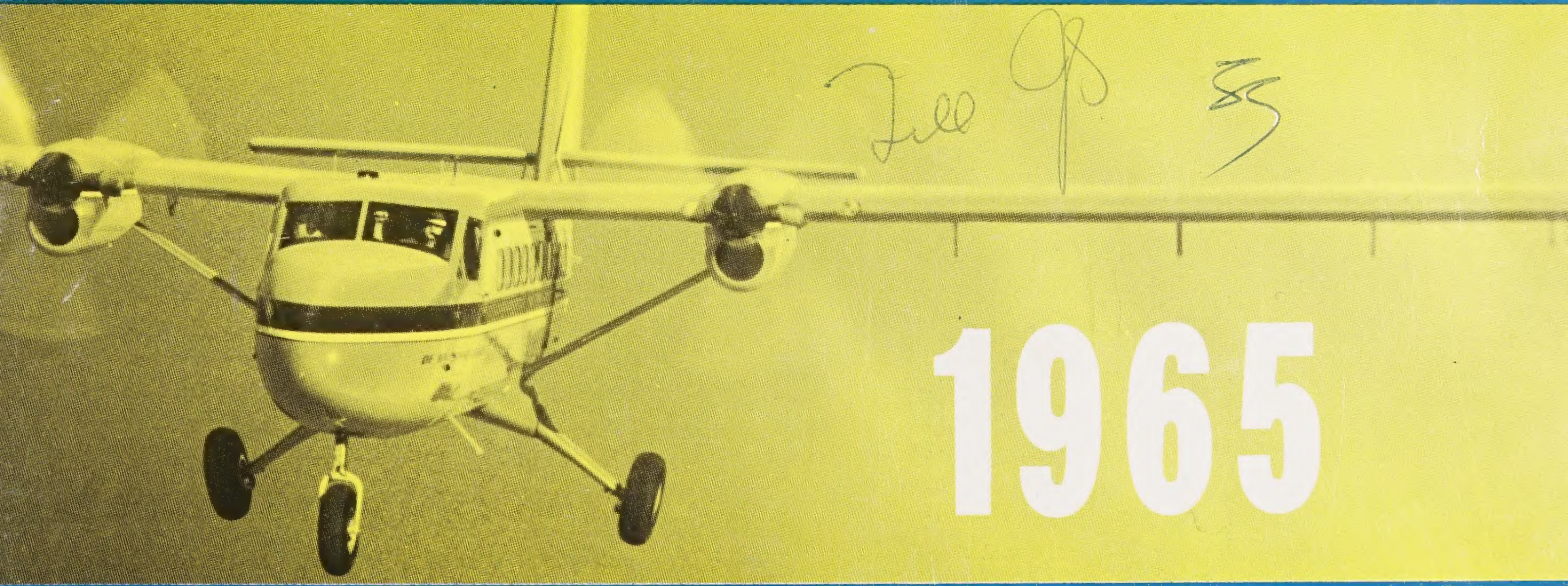
THE DE HAVILLAND AIRCRAFT OF CANADA, LIMITED / DOWNSVIEW, ONTARIO / ANNUAL REPORT



Full p 85

1965

The DHC-6 Twin Otter is a twin-engine STOL utility transport in the true tradition of its sturdy predecessor, the DHC-3 Otter. Powered by two Canadian built PT6A-20 free gas-turbine engines each delivering 587 Equivalent Shaft Horsepower, it is capable of cruising at 182 mph. and operating from rough airstrips only 1000 ft. long.

Its simplicity, economy and versatility promise worldwide acceptance of this aircraft. Orders already on hand demonstrate the Twin Otter's applicability to a variety of tasks ranging from bush operation, commuter-airline service and airtaxi flights to aerial photography, magnetometer surveys and forest protection service.

The Twin Otter's rough field STOL characteristics make it equally suitable for military roles such as light utility tactical transportation. Eight Twin Otters have been ordered by the Chilean Government for use in this role.

THE 1965 ANNUAL REPORT
OF THE
THE DE HAVILLAND AIRCRAFT OF CANADA, LIMITED

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To The Shareholders . . .

Gross revenues in 1965 amounted to $127,088,872 compared to $91,776,493 in 1964. About half of 1965 revenue was in respect of sub-contract activity for Douglas Aircraft Company Inc. on DC-9 wing and empennage components. In 1964 this source accounted for only 13%.

A loss of $1,649,218 after tax was experienced in 1965, compared with a $639,601 profit in 1964. Several factors contributed to the worsening of the position. First, was the continuing substantial development expenditures on the Turbo-Beaver, Twin Otter, and Buffalo, which were written off as incurred; second, was a very costly five week strike, and third was an unfavourable return on the sale of components for the DC-9. However, by the end of the year the company was in a much stronger financial position as the working capital improved by $18 million. We now have a significant working capital position compared to a deficiency at the end of 1964.

In 1966 development expenditures will remain heavy. However, with the start of production on the Twin Otter and the Buffalo, and acceleration of production on the Turbo-Beaver, we are confident that by 1967 we shall reap the benefit of these programs. This, together with significant payments on the Douglas contract, will make 1967 a profitable year. We are receiving continued substantial assistance from the Canadian Government on these aircraft development programs.

In the latter part of the year, Douglas and de Havilland agreed it would be mutually advantageous for Douglas of Canada to assume responsibility for the greatly expanding DC-9 production at our Malton Plant. The doubling of the production schedule, together with increasing complexity as new variants of the aircraft were introduced, combined to require a total program investment in terms of talent and money at least twice that originally projected. This situation was having a deleterious effect on our regular and traditional lines of business. Accordingly, Douglas Aircraft Company of Canada, Limited leased a portion of the de Havilland Malton Plant, with an option to buy, and purchased the machinery and equipment in the leased premises, all on terms favourable to your Company. The Company's total investment in this program, which was substantially reduced in the year, has been written off, and will be fully recovered by payments from Douglas, contingent upon delivery of DC-9 aircraft scheduled for 1967 and thereafter. The expected payments total approximately $13,000,000 of income.

Seventy-three aircraft of de Havilland design and manufacture were delivered during the year, which was less than the previous year's record, but was a near record for the Company. The major reduction was in the Caribou program which is continuing at a reduced rate due to the completion of the latest U.S. Army order. We look forward to continued world-wide sales of Caribou for several years to come, and the number of airplanes of all types to be produced and sold annually will increase significantly with the introduction of our new models.

Nine Turbo-Beaver aircraft were delivered late in 1965. Production of three to four aircraft per month is programed. This new turbine powered version of the world-renowned piston-engined Beaver is being enthusiastically received in the market.

The new Twin Otter is in process of certification. Fourteen have been ordered, and seven optioned in Canada, Australia, Chile and the United States. During 1966 production of this fifteen passenger or general purpose utility transport, embodying short take-off and landing characteristics, will reach five aircraft per month.

Production of the Buffalo has started, with the first fifteen aircraft going to the Canadian Defence Forces during 1967. Four prototypes have been accepted by the United States Army. This aircraft has demonstrated its capability under combat conditions in Vietnam.

Sales of aircraft spares continue at a level in excess of one million dollars per month, and we are justly proud of our record of support of de Havilland aircraft in the field.

We are continuing major development programs to maintain a lead in aircraft design within our traditional fields. The Canadian Government is giving financial assistance for these programs.

The FHE-400 Hydrofoil ship being designed and constructed for the Royal Canadian Navy is expected to be launched this summer. The development of this two hundred ton vessel has placed a heavy burden on the Engineering staff, and has involved a large number of sub-contractors, as well as in-house fabrication employing the most sophisticated manufacturing techniques.

The Special Products and Applied Research Division continued to improve sales and profits, and has established a firm position in the space programs in the U.S. and Canada.

The Alouette II, successfully launched in November 1965, was the second of a series of Canadian satellites whose structure and mechanical systems were designed and built by the SPAR Division. Isis A, the next in the series, successfully passed early tests and is now, in final construction. In addition, SPAR is designing and building the de Havilland Canada patented STEM device for many U.S. satellites. The successful Gemini program is a notable example, where each space-craft carries four such mechanisms. More than 100 different STEM devices have been put into orbit on various space-craft. The use of STEM for ground vehicle applications is expanding very rapidly with several models under development for use on army vehicles.

This Division has developed an infra-red target acquisition unit for forward area air defence, and this program is continuing for use on a variety of advanced surface-to-air weapons systems. Other infra-red items for military and commercial applications are also being developed. We are continuing to expand product lines, and are concentrating on development, with Canadian Government support, in the areas of vehicular solid state power systems and motor controllers, cryogenic systems, specialized airborne survey apparatus, automatic station controls, aircraft landing equipment, and specialized optical instruments. SPAR is also a major instrument repair and overhaul facility for the Royal Canadian Air Force.

DCF Systems Limited, a wholly-owned subsidiary, has been reorganized to concentrate on its original specialities, i.e. data processing systems and operational research, and has been relocated in the centre of the business district of Toronto.

We record with regret the death of Sir Geoffrey de Havilland, O.M., who had been associated with the Company since its founding in 1928. Sir Geoffrey was one of the great and true pioneers of the aero-space industry, and gave his name to an illustrious family of aircraft.

Mr. Philip C. Garratt, Chairman and Managing Director, retired at the year's end, after almost thirty years of leadership of the Company. During this time de Havilland Canada grew from an agency of de Havilland of England to the largest employer in the aircraft industry in Canada and achieved a world-wide reputation as the leader in the field of rugged STOL aircraft.

Mr. George J. Mickleborough, Director, Vice-President and Secretary-Treasurer, retired in mid-year, after serving the Company from its inception.

Mr. T. J. Emmert was appointed Chairman of the Company to succeed Mr. Garratt. Mr. W. B. Boggs was appointed a Director and President of the Company. Mr. Douglas B. Annan, a Vice-President of the Company, was also appointed to the Board.

Future emphasis will be on strengthening the organization and improving management techniques and physical facilities.

Much has to be accomplished in 1966 to bring new programs into profitable status, and to complete heavy development and production commitments.

We are confident that with the continuing support of all concerned, 1966 will be a year of significant progress.

Chairman

W B Boggs

President

March 15, 1966

THE DE HAVILLAND AIRC
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Consolidated Balance

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Assets

	1965	1964
CURRENT ASSETS:		
Cash	16,770	17,608
Accounts receivable	11,325,976	10,146,382
Receivable from affiliated companies	241,392	535,949
Inventories, less progress payments (note 1)	21,750,224	19,107,752
Prepaid expenses	118,100	102,930
	33,452,462	29,910,621
NON-CURRENT PORTION OF ACCOUNTS RECEIVABLE	3,032,358	9,142,684
FIXED ASSETS, AT COST:		
Land, building and property improvements	19,936,364	19,870,323
Machinery, equipment and furniture	6,939,019	15,451,455
Tractors, automotive equipment and aircraft	2,050,723	1,852,870
	28,926,106	37,174,648
Less Accumulated depreciation	17,542,052	22,705,679
	11,384,054	14,468,969
DEFERRED DEVELOPMENT (note 2)		16,023,997
PATENTS AND MANUFACTURING RIGHTS	2	2
	$47,868,876	$69,546,273

The accompanying notes are an integral part of this

Approved on b

T. J. EMMERT, Director

AFT OF CANADA, LIMITED
ED SUBSIDIARIES

e laws of Ontario

eet, December 31, 1965
figures for 1964)

Liabilities

CURRENT LIABILITIES:	1965	1964
Bank advances, secured	15,433,437	28,630,419
Accounts payable and accrued expenses	7,849,778	10,901,329
Payable to affiliated companies	239,091	124,987
Deposits and other payments against customers' contracts	1,309,080	3,320,815
Income taxes payable	3,584,594	
Principal instalment due within one year on long-term liability	232,015	232,015
	28,647,995	43,209,565
LONG-TERM LIABILITY:		
Liability on purchase of Crown assets, payable in annual instalments to July 27, 1966 with interest at 5% per annum	232,015	464,030
Less Principal instalment due within one year included under current liabilities	232,015	232,015
	—	232,015
TOTAL LIABILITIES	28,647,995	43,441,580
PROVISION FOR CONTINGENCIES	450,000	450,000
INCOME TAX REDUCTIONS APPLICABLE TO FUTURE YEARS (note 3)	1,060,000	6,294,594

Shareholders' Equity

CAPITAL STOCK:		
Authorized:		
50,000 $2.00 non-cumulative participating Class A shares without par value		
10,000 Class B common shares without par value		
Issued:		
32,000 Class A shares 10,000 Class B common shares	306,000	306,000
RESERVE FUND	9,000,000	9,000,000
RETAINED EARNINGS	8,404,881	10,054,099
	17,710,881	19,360,099
	$47,868,876	$69,546,273

atement and should be read in conjunction therewith.

lf of the Board.

W. B. BOGGS, Director

Consolidated Statement of Income and Retained Earnings

Year ended December 31, 1965
(with comparative figures for 1964)

	1965	**1964**
Sales	127,088,872	91,776,493
Cost of sales, including materials, labour, manufacturing, engineering, administrative expenses and design and development	126,620,935	88,089,123
Depreciation	1,739,432	1,571,753
Remuneration of directors, including fees and contributions to pension fund	290,537	237,321
Interest expense	1,737,186	563,695
	130,388,090	90,461,892
Income (loss) before undernoted item	(3,299,218)	1,314,601
Reduction of income taxes for year (note 3)	1,650,000	
Taxes on income deferred to future years		675,000
Net income (loss) for year	(1,649,218)	639,601
Retained earnings at beginning of year	10,054,099	9,414,498
Retained earnings at end of year	$ 8,404,881	$10,054,099

Auditors' Report

To the Shareholders of
The de Havilland Aircraft of Canada, Limited:

We have examined the consolidated balance sheet of The de Havilland Aircraft of Canada, Limited and wholly-owned subsidiaries as at December 31, 1965 and the consolidated statement of income and retained earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and consolidated statement of income and retained earnings present fairly the combined financial position of The de Havilland Aircraft of Canada, Limited and wholly-owned subsidiaries as at December 31, 1965 and the results of their combined operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada.
March 15, 1966.

THORNE, MULHOLLAND, HOWSON & McPHERSON
Chartered Accountants

NOTES TO FINANCIAL STATEMENT

Year ended December 31, 1965

1. Inventories are as follows:

	1965	1964
Raw materials, parts and supplies	9,923,451	13,055,816
Work in process	13,233,197	18,675,016
Finished aircraft	2,812,996	571,183
	25,969,644	32,302,015
Less Progress payments	4,219,420	13,194,263
	$21,750,224	$19,107,752

Raw materials, parts, supplies and finished aircraft are stated at the lower of cost or market.

Work in process is stated at the lower of cost or an appropriate portion of standard cost. Standard cost of a completed unit is expected to produce normal profit. However, the completion of much of the work in process will require considerable development costs in excess of standard which are expected to be fully recovered over the life of the programs.

2. During the year the company made arrangements with Douglas Aircraft Company Inc. of the United States (Douglas Inc.) and Douglas Aircraft Company of Canada Ltd. (Douglas Canada) whereby Douglas Canada assumed the development and manufacture of DC-9 components previously being undertaken by the Company. Under the terms of the agreement:

(i) The Company was to be reimbursed for all expenditures on account of the development and manufacture in excess of $10,000,000 U.S., which amount was written off in 1965 and prior years. The required reimbursement was received in 1965.

(ii) Douglas Canada leased a substantial portion of the Malton Plant of the Company and was given an option to purchase these leased premises at any time during the lease.

(iii) The Company will receive $115,000 U.S. for each set of components shipped to Douglas Inc. in excess of 200 and up to 300 and further amounts for sets shipped in excess of 300 and up to 500. The maximum payment under this provision is $13,000,000 U.S. In addition further payments will be made as long as Douglas Canada is leasing and using the Malton plant, on the basis of sets of components shipped to Douglas Inc. in excess of 500 at the rate of $5,000 per set.

(iv) Douglas Canada purchased from the Company all machinery, equipment, furniture and automotive equipment used in the operation of the DC-9 program and is to be paid for by Douglas Canada over a term of five years.

3. The recovery of development expenditures on the DC-9 program which were previously claimed for tax purposes has resulted in taxable income after deduction of the operating loss for the year. The taxes payable for the year and the tax credit in the statement of income and retained earnings have been provided out of "Income tax reductions applicable to future years". The balance remaining in this latter account is available for appropriation in future years when taxable income exceeds reported income.

4. Commitments for capital expenditures not included in the balance sheet as at December 31, 1965 amount to approximately $360,000.

1—A 17 foot STEM antenna was raised from NASA's GT-6 Gemini space capsule after splash down in the Atlantic. The stainless-steel antenna was used for high frequency voice transmission in the recovery maneuver. Three smaller berillium-copper STEM devices were used on the same spacecraft to serve as antennas in orbital communication. de Havilland Canada's leadership in the field of furlable antennas has brought the Company into association with almost every major U.S. space programme.

2—The DHC2-MKIII Turbo-Beaver, a modification of and successor to the standard Beaver, is a turbine powered single-engine utility aircraft with outstanding STOL (short-take-off-and landing) characteristics. It is certificated for operation on wheels, skis and floats and is currently in service in all three configurations. Powered by a PT6A-6 turbine engine the Turbo-Beaver demonstrates performance improvements of about 35% over its predecessor, the Beaver. Capable of carrying loads of up to 1925 lbs. or 9 persons the aircraft is an efficient and economical performer.

3—The hull of the FHE 400 hydrofoil vessel now officially named the "Bras d'Or", was constructed in an inverted position. Earlier this year it was turned into an upright position to permit the attachment of the foils and the building of the superstructure. Intended for the ASW (Anti-Submarine Warfare) role, the FHE 400 will have two distinctly separate propulsion systems, a conventional marine Diesel engine for the displacement mode, and a 22,000 SHP gas turbine for foil-borne operations. Riding on its foils the vessel will be capable of speeds of 60 knots.

4—The DHC-5 Buffalo is a medium sized transport aircraft specifically suited to the tactical mobility concept. Two prototypes have already been successfully employed in this role during a two month tour in Viet Nam. In spite of its considerable size the aircraft is a nimble performer at both ends of its speed range, 80 mph to 280 mph. Its short take-off capability, ground rolls of just a little over 3 times its own length, permit operations into locations, inaccessible to fixed wing aircraft of similar size. Powered by two T-64 turbine engines the Buffalo will carry payloads of up to 6½ tons or 47 passengers into unprepared airstrips of no more than a 1000 ft. length.

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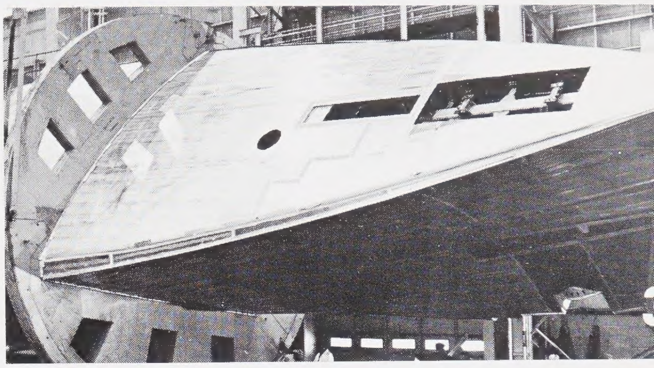
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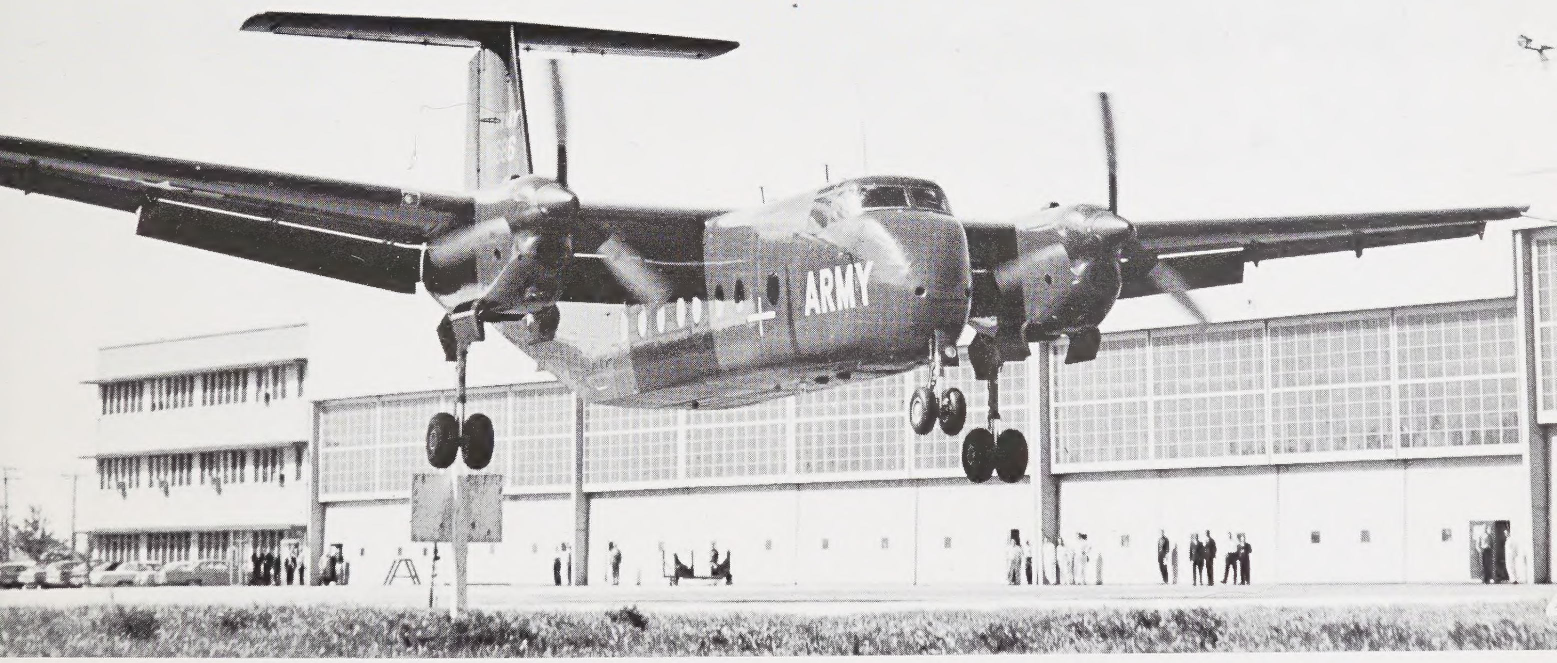

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